HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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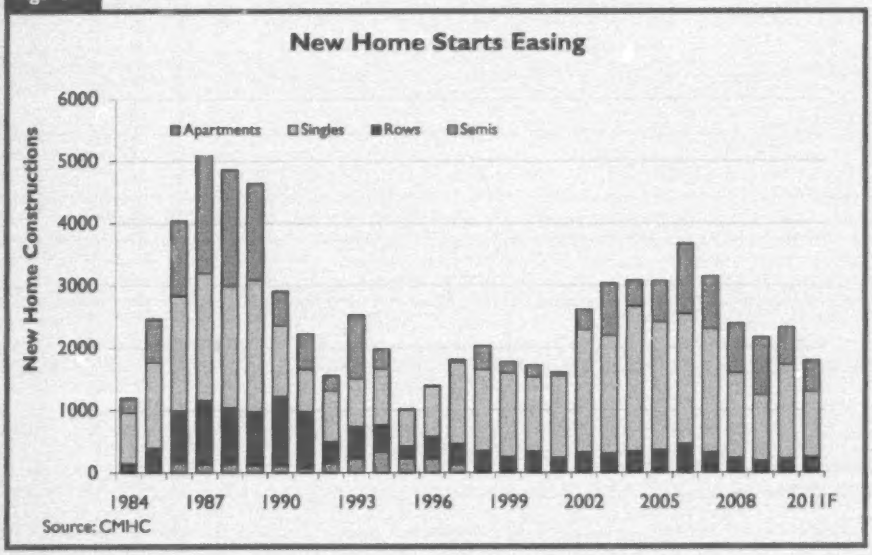
Market at a Glance

- After declining in the second half of 2010, existing home sales will recover gradually through 2011. However, total sales in 2011 will be lower than they were in 2010.
- Housing starts will decline to a level that matches demographic demand.
- Employment will recover gradually following a set-back in the second half of 2010.

Figure 1



[1] The forecasts included in this document are based on information available as of October 8, 2010.

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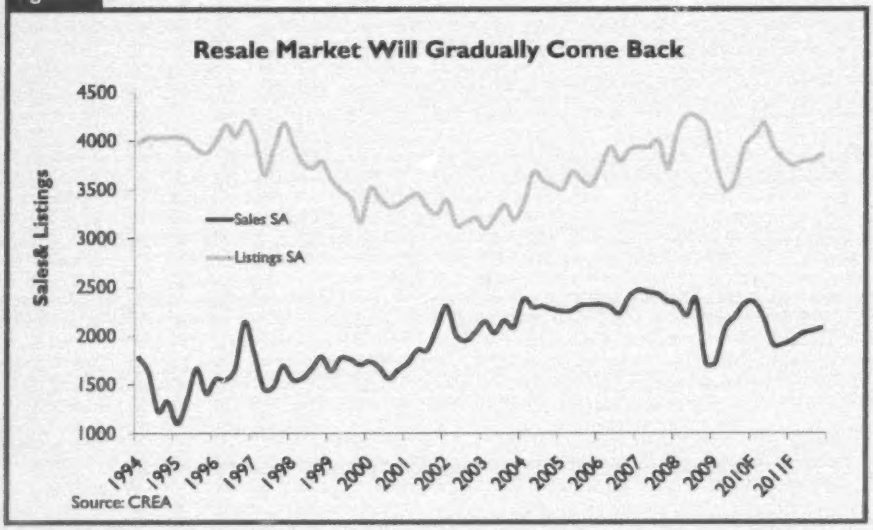
Figure 2



Resale Market

Withdrawal of first time buyers leads to slower sales

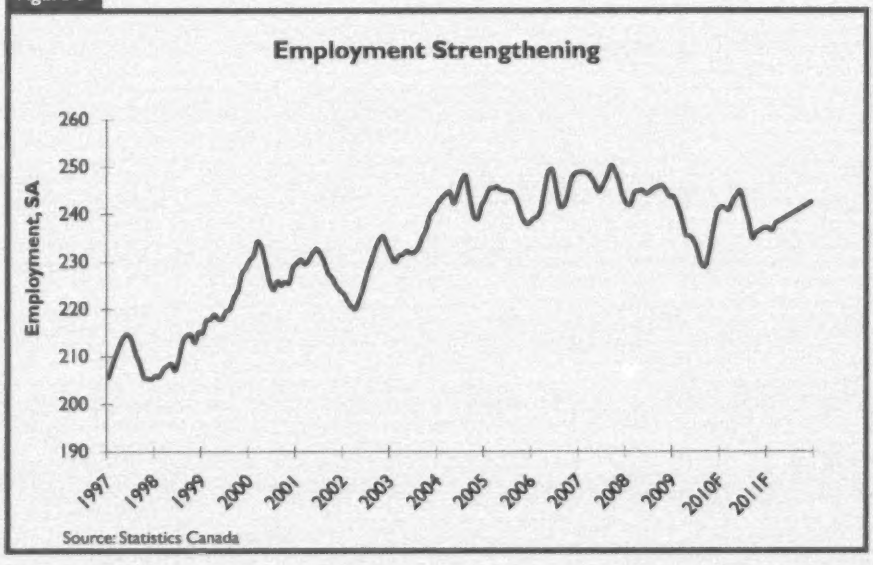
The robust spring London resale market will offset the slowdown in the second half of the year as sales remain virtually unchanged in 2010 from the previous year. Sales will gradually recover in 2011, but not sufficiently for the total to match 2010 annual sales.

First-time buyers were the main driver behind the strong spring market as many brought their purchases forward to avoid anticipated mortgage rate increases. This raised sales early in the year and is contributing to the decline in sales in the second half of 2010. With many first-time buyers having completed their purchase in the spring, repeat buyers are currently driving sales. The income required[1] to buy a home will decrease modestly in 2010 due to flat prices and slightly lower mortgage rates. Since the decrease is very small, the impact on sales will also be quite limited.

After adjusting for seasonality, the number of new listings increased throughout the second half of 2009 and the first half of this year as homeowners noticed growing prices. New listings fell along with sales and prices in the third quarter and will show further weakness in the fourth. Growth in new listings in 2011 will be slow as homeowners who do not have to move will delay putting their home on the market due to the lack of price growth and the slow growth of sales. The slow increase in supply and a similar trend in sales will keep the market as a whole in balance; however, some segments may flirt with buyers' conditions for short periods.

The relatively strong price growth in 2010 is a combination both of a tighter market pushing up prices generally and a shift to higher-priced homes as repeat buyers became a bigger presence in the market. Strong price growth in specific categories such as townhouses or low-rise apartment condominiums is evidence of general price appreciation, while

Figure 3



[1] Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on the average MLS® price, a 10 per cent down payment, the forecast of the posted fixed five-year mortgage rate and 35-year amortization for a mortgage loan.

stronger sales in higher price ranges is evidence of the latter. During the first three quarters of the year, sales of homes with price tags higher than $250,000 jumped while sales of homes priced between $90,000 and $175,000 dropped. While bracket creep due to the price appreciation explains some of this shift, its strength suggests buyers were also looking for more valuable homes. For example, sales of homes sold for over $500,000 increased by 46 per cent. In 2011, with listings growing along with sales and first-time buyers returning to the market, price growth will be subdued.

New Home Market

Demand for new construction diminishes

Due to a strong beginning, housing starts in the London CMA will post a moderate annual gain this year, but as the downward trend continues into 2011 starts will fall.

Single-detached construction followed a similar pattern as the resale market, albeit several months delayed. Following the slump of the recession homebuilders were busy restocking inventory and satisfying spill-over demand from a tight resale market. Consequently, single-detached housing starts rebounded in early 2010 as builders responded to consumers' demand fuelled by anticipated mortgage rate increases. The early strength has been waning and, following further easing in 2011, single starts will not rise much above the level achieved in 2009.

Housing starts in the London CMA have been running above demographic demand, or the level required to house increases in the size of the population starts, and will fall to a level which reflects long-term growth next year.

House prices will flatten

The average price of a new single detached home in the London CMA will remain virtually unchanged in 2011 as reduced demand keeps price growth minimal. Between 2007-2009 the average price of newly completed homes showed double digit growth, influenced by demand for higher priced homes. This year demand for more affordable new homes has increased, in part due to the tighter resale market. As buyers found it more difficult to satisfy their needs in the resale market, they looked to new construction, but bought relatively more affordable homes, bringing down the average price. This trend may reverse again, but diminished cost pressures will restrain growth in the average price. The New Home Price Index (NHPI), which measures the change in the price of constant quality homes, is expected to increase by only one per cent in 2011. Cost pressures at the beginning of 2010 were passed to customers, but by mid-year builders were able to reverse the process and pass on some cost reductions.

High construction activity limits more rental starts

The number of rental apartment starts will decline again in 2011 from the robust levels of the 2006-2009 period. Rental apartments take some time to complete, and although the number of starts has fallen, the number under construction remains substantial. The expectation that the market will be well-supplied as new buildings are completed will be the main factor restraining initiation of new projects. There have been several announcements regarding both condominium and rental apartment developments planned for the downtown and Old East areas of the City, however evidence has yet to appear for most and several may be postponed due to current conditions.

Local Economic Outlook

By the second quarter of 2010, London had recouped most of the jobs lost during the downturn. However, there was a significant set-back in the third quarter which underlines the fragile nature of the recovery. Employment is expected to stabilize in the fourth quarter and strengthen over the course of 2011.

The downturn and recovery in employment were almost entirely related to the service sector. Employment in the manufacturing sector has been trending downward since 2002, exacerbating the job losses in 2008/2009 and limiting the subsequent recovery. Although some manufacturers have announced investment plans, they have not been sufficient to produce a turnaround. Employment appears to have stabilized and stability in the manufacturing sector will support the gradual recovery expected in 2011.

Within the services sector, both the downturn and recovery were broadly based. Increased enrolment at post-secondary educational institutions will support further growth in the education sector. Employment in the health sector was almost unaffected by the downturn and will also support some strengthening in service sector

employment during 2011. As full-time employment fell during 2009, a significant number of part-time jobs were created, suggesting some workers retained their positions but had their hours cut back. The trend reversed in 2010, but part-time employment as a proportion of total employment still remains higher than it has been in more than a decade.

Migration picking up

Net migration to the London CMA will be up in 2010 and 2011, reaching about 2,700 people in each year. Improving employment opportunities will contribute to a decline in the number of Londoners leaving for other areas within the country in search of work. The number of people moving to other provinces appears to have peaked in 2009 during the worst of the economic downturn and now fewer people are leaving.

As well, higher levels of international migration will bring in new residents. The number one and two areas from which immigrants came to London in the past few years were the Africa and the Middle East region and the Asia and Pacific region.

Mortgage rate outlook

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Forecast Summary London CMA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	9,686	8,620	8,314	8,350	0.4	8,100	-3.0
MLS® New Listings	15,590	16,769	14,795	16,000	8.1	14,600	-8.8
MLS® Average Price ($)	202,908	212,092	214,510	227,500	6.1	227,600	0.0
New Home Market							
Starts:							
Single-Detached	1,983	1,369	1,056	1,500	42.0	1,050	-30.0
Multiples	1,158	1,016	1,112	770	7.7	840	4.6
Semi-Detached	42	24	12	20	-16.7	20	0.0
Row/Townhouse	278	205	169	200	18.3	220	10.0
Apartments	838	787	931	550	-40.9	600	9.1
Starts - Total	3,141	2,385	2,168	2,320	7.0	1,790	-22.8
Average Price ($):							
Single-Detached	290,342	320,039	341,898	333,000	-2.6	334,700	0.5
Median Price ($):							
Single-Detached	266,000	295,900	307,900	320,000	3.9	322,000	0.6
New Housing Price Index (% chg.)	3.6	3.5	1.4	1.0	-	1.0	-
Rental Market							
October Vacancy Rate (%)	3.6	3.9	5.0	5.6	0.6	4.0	-1.6
Two-bedroom Average Rent (October) ($)	816	834	896	920	-	950	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level	247,400	244,300	235,700	239,000	1.4	242,000	1.3
Employment Growth (%)	0.7	-1.3	-3.3	1.3	-	1.3	-
Unemployment rate (%)	6.1	7.0	9.9	9.8	-	8.9	-
Net Migration	2,383	2,668	2,481	2,700	8.8	2,700	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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